

Employment, Job Opportunities, and Inequality Among Workers in the U.S. Economy

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Chairman Frank, Ranking Member Bachus, and distinguished members of the Committee, I appreciate the opportunity to appear before you to discuss the state of the economy and the state of the labor market. I am an economist by background, and have long been very interested in the interactions between the macroeconomy, economic policy, and labor market outcomes. I speak here on behalf of myself and not the organizations with which I am affiliated.

Participation in the labor market is key to economic success in the United States. At an individual level, jobs and earnings are the primary source of income for most families; at a macroeconomic level, greater employment raises overall output and increases economic growth. In this testimony, I plan to focus on the economic opportunities available to the least-skilled workers in the population, discussing the extent to which they have been able to find work and earn enough to support themselves in the U.S. labor market. I will also say a few words about the problem of rising economic inequality.

It has always been clear that the most important policy to assist less-skilled workers is a healthy macroeconomy with strong job growth. There has been historically a strong positive correlation between unemployment rates and poverty rates: When unemployment rises, so does poverty. In fact, when cash assistance became less available to single-parent families during the 1990s, the correlation between unemployment rates and poverty for these families became stronger.¹ It is worth noting

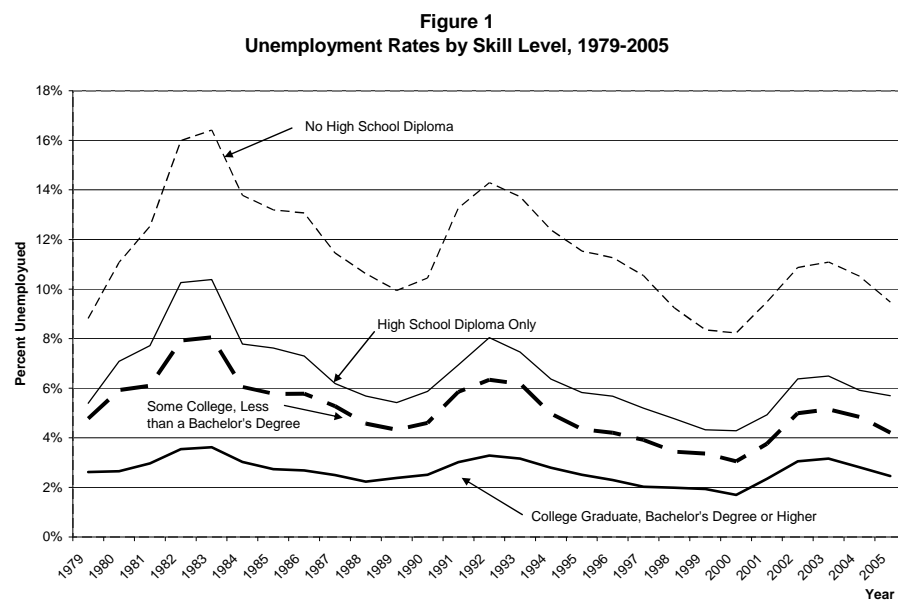
¹ Rebecca M. Blank, "Fighting Poverty: Lessons from Recent U.S. History," *Journal of Economic Perspectives*, Vol 14(2): 3-19, Spring 2000, or Robert Haveman and Jonathan Schwabish, "Has Macroeconomic Performance Regained its Antipoverty Bite?" *Contemporary Economic Policy*, Vol 19(4): 415-427, October 2000.

that inflation has little correlation with poverty.² For non-elderly adults and their children at the bottom of the income distribution, keeping employment high is significantly more important than keeping inflation low.

Trends in Unemployment and Labor Force Participation over the Past 25 Years

A primary reason why unemployment and poverty are strongly correlated is that unemployment tends to be concentrated among less-skilled and lower-wage workers.

Figure 1 shows the trends over the last 25 years of unemployment rates by skill level, distinguishing between four groups of workers: those with less than a high school degree, those with only a high school degree, those with some post-high school training but not a four-year college degree, and those with a four-year college degree or more.



Three immediate facts are clear from Figure 1:

² Op. cit.

- *Unemployment rates are substantially higher among less-skilled* rather than more-skilled workers. The brunt of unemployment at any point in time is borne by lower-wage workers. For instance, in January 2007, over 55% of those unemployed were low-skilled (with only a high school degree or less), although less than 40% of the labor force was in the low-skill category.
- *Unemployment among less-skilled workers is much more cyclical* than among more-skilled workers. When jobs become scarce, those who lose their jobs first tend to be the temporarily employed, the part-time employed, or those employed in less stable jobs and industries. This is disproportionately lower wage and less skilled workers. Hence, unemployment among the less skilled rises rapidly in economic slowdowns.³
- While overall unemployment rates remain quite low, *unemployment among less-skilled workers is still relatively high*. The ratio of unemployment among less-skilled (high school degree or less) to more-skilled (more than a high school degree) workers is higher now than in the late 1990s. The current economic expansion has not increased employment as much for less-skilled workers as did the amazingly strong economic expansion of the 1990s.

Of course, the unemployment rate is not a complete indicator of the job opportunities available (or not available) to workers. In times of higher unemployment, many workers, particularly women, tend to drop out of the labor market all together, which means they are not counted in the unemployment statistics. As a result, we often

³ For more extensive information on the relatively greater responsiveness of less-skilled and more disadvantaged workers to the economic cycle, see Hillary W. Hoynes, "The Employment, Earnings, and Income of Less-Skilled Workers Over the Business Cycle," in *Finding Jobs: Work and Welfare Reform*, David Card and Rebecca M. Blank, editors, New York: Russell Sage Foundation, 2000.

look at overall labor force participation rates – the share of adults who are working or seeking work (that is, unemployed) – as a measure of the job opportunities available.

More people are drawn into the labor market in a strong economy.

Figure 2 plots labor force participation rates over the past 25 years among more skilled and less-skilled men and women between the ages of 18 and 65, again distinguishing between those with a high school degree or less and those with more than a high school degree.

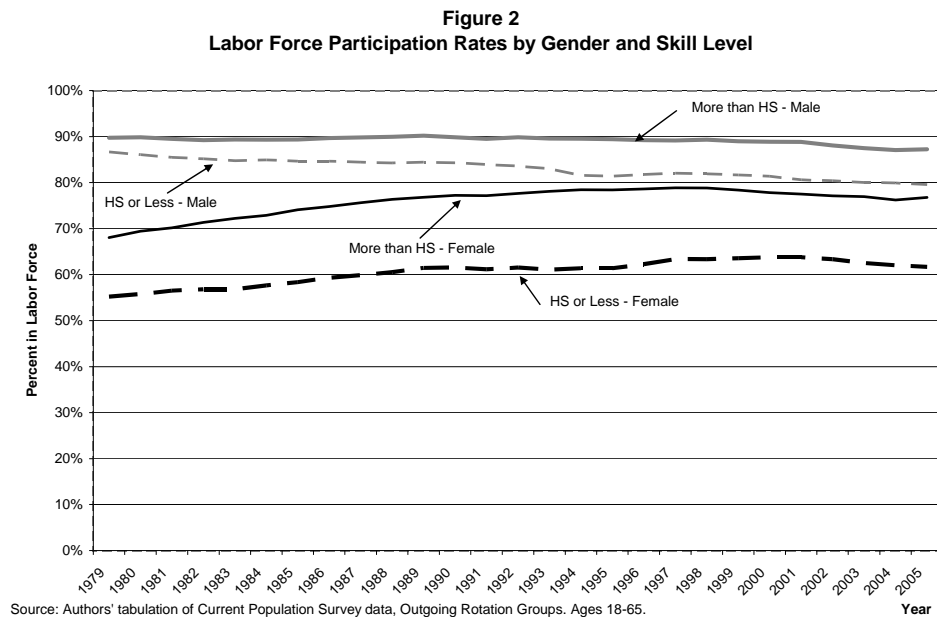


Figure 2 shows two important trends:

- *Labor force involvement is falling among less-skilled men*, relative to more-skilled men. Surprisingly, this decline in work involvement continued even through the booming economy of the 1990s and has surely continued during the 2000s. This trend is particularly striking among African American men. Among less-skilled adult black men, only 66% report themselves at work or looking for work in 2005.

- In contrast to less skilled men, *labor force participation of less skilled women has been rising rapidly* over the past decade. This has been linked with welfare reform efforts and other policy changes (such as the expansion of the Earned Income Tax Credit) that pushed women off cash assistance and provided greater incentives for them to work.⁴

Why Has Work Fallen Among Less-Skilled Men While Rising Among Less-Skilled Women?

It is important to understand why it is that less-skilled women are working more while less-skilled men are working less, since this may give us a clue about how to reverse the decline in labor force participation among men. Part of the answer is policy-related. As access to cash welfare assistance has become more limited, less-skilled women (particularly single mothers) are working more. Between 1990 and 2004, the share of income from cash assistance fell from 23% to 5% among single mothers, while the share of income from earnings rose from 57% to 66%.⁵ This helps explain why women might be working more, but it does not explain why male labor force participation is falling.

As welfare reform pushed women into the labor market, a number of other policies that were designed to subsidize work among lower-wage workers have disproportionately benefited less-skilled women and particularly single mothers. The large expansions in the Earned Income Tax Credit (EITC), which provides a substantial

⁴ Summaries of this research are provided in Rebecca M. Blank, "Evaluating Welfare Reform in the United States," *Journal of Economic Literature*, Vol 40(4): 1105-66, December 2002, and in Jeffrey Grogger and Lynn A. Karoly, *Welfare Reform: Effects of a Decade of Change*, Cambridge: Harvard University Press, 2005.

⁵ Based on tabulations of Current Population Data.

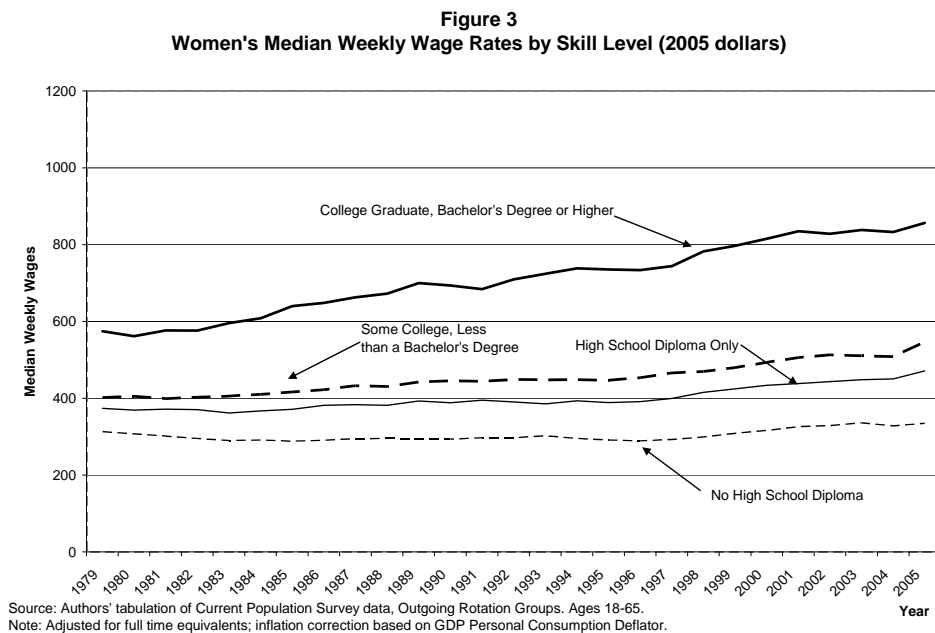
subsidy through the tax system to low-wage workers in low-income families with children, have been very important in propelling more single mothers into work. Several researchers suggest the EITC was more important than welfare reform in increasing work and earnings. Along with welfare reform, both federal and state governments have significantly increased child care subsidies, making it cheaper for women with children to work. Finally, changes in public health insurance through Medicaid have also assured that children (but not their parents) in low-income families are covered by public health insurance.⁶ This means that women who leave public assistance to work in low-wage jobs without health insurance coverage will no longer lose insurance for their children, and this may also have increased their willingness to work.

In short, *the United States implemented a set of policies that subsidized work and that particularly encouraged former welfare recipients to move into work.* The result was a significant increase in employment among this population. Furthermore, this increase in employment has lasted through the first decade of the 2000s, despite a somewhat more sluggish labor market. While labor force participation has fallen somewhat among less-skilled women in recent years, it remains above where it was in the early 1990s (see Figure 2).

But policy changes are not the only story for understanding differential male/female changes in employment. *Macroeconomic shifts in demand are also very important.* Declining demand for less skilled workers has pulled down wages of both less-skilled men and women. These declining real wages among men have been directly correlated with their declining labor force participation. Women's wages were less affected, however, as other offsetting forces have moderated these demand changes.

⁶ The two publications referenced in footnote 4 also provide summaries of this research.

Figure 3 shows median weekly wage rates among women by skill level for the past 25 years. Wages among less-skilled women have increased over time, particularly since the mid-1990s. My own calculations of inflation-adjusted median weekly earnings indicate that women who are high school dropouts have seen their weekly wages rise by 14% between 1990 and 2005, while women with only a high school degree have seen increases of 21%.⁷ These wage increases reflect increased labor market experience among women (which is correlated with higher wages), increases in the returns to experience (so that each year of experience results in greater wage growth), and sharp reductions in the extent to which women with children experience lower wages.⁸



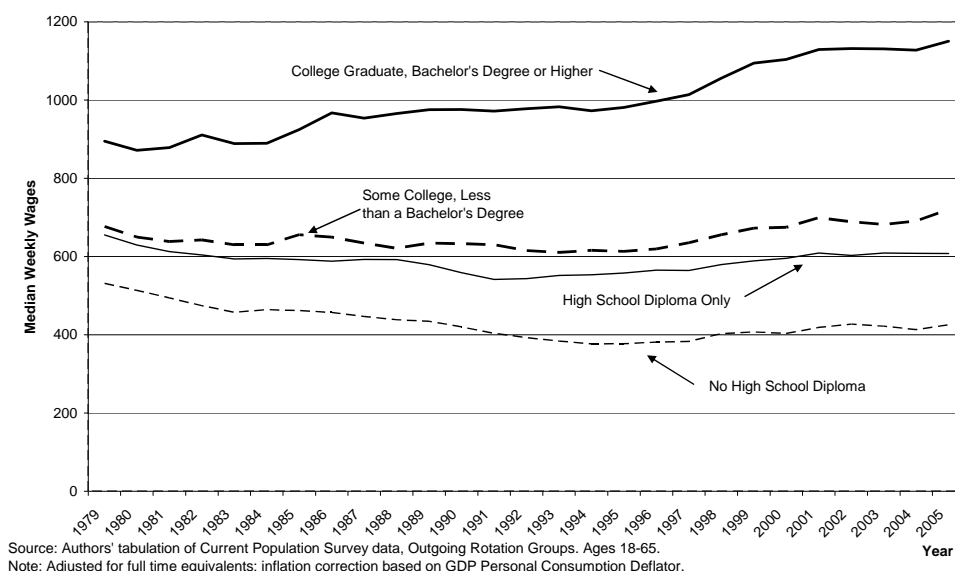
These wage changes among less-skilled women are in contrast to less-skilled men. Figure 4 shows the same wage trends among men by skill level over the past 25

⁷ These calculations are based on the Outgoing Rotation Group data from the Current Population Survey for women ages 18-65. The data are adjusted for hours, to provide a measure of full-time equivalent wages. Inflation adjustments are based on the GDP Personal Consumption Deflator.

⁸ See the article by Rebecca M. Blank and Heidi Shierholz, "Exploring Gender Differences in Employment and Wage Trends Among Less-Skilled Workers," in *Working and Poor: How Economic and Policy Changes are Affecting Low-Wage Workers*, edited by Rebecca M. Blank, Sheldon H. Danziger and Robert F. Schoeni, New York: Russell Sage Foundation, 2006.

years. In recent years, from 1990 to 2005, real median weekly earnings among men rose much less than among women. Among male high school dropouts, wages were virtually unchanged over this period, rising by 1%, while wages rose by 9% among those with only a high school degree.

Figure 4
Men's Median Weekly Wage Rates by Skill Level (2005 Dollars)



Less-skilled men and women have fallen progressively further behind their more skilled brothers and sisters; completing a high school degree no longer allows access to jobs that pay middle-income wages. In this sense, the job market has gotten tougher for both low-skilled men and low-skilled women. But other changes among women – growing work experience, greater returns to experience, and a reduced trade-off between children and wages – have offset these problems and led to somewhat greater wage increases among less-skilled women.

While the evidence suggests that less-skilled women are doing better than similar men, I do not want to paint a rosy picture of the low-wage labor market for women. Because women's wages are lower than men's, they often earn very low

incomes while struggling to meet the demands of their employers, caring for their children, and organizing child care during work. One group in particular appears to be struggling the most. A group of highly disadvantaged single mothers seems to be facing particularly low incomes. This group – often referred to as “disconnected” -- is neither working nor on welfare. Most disturbing, this group has been growing rapidly post-welfare reform. Currently, 20 to 25% of single mothers report themselves as neither working nor on welfare, double the number only 10 years ago.⁹

This group is very poor. Only half of these mothers live with another adult, and even those who do have low household incomes. Research suggests that this disconnected group is largely composed of women who have left welfare but who have multiple disadvantages or barriers to work, including low skills, health problems and especially problems with depression, responsibility for a child or adult with health problems, substance abuse problems, and current or past experience with domestic violence. The more such “barriers” a women faces in her life, the less likely that she is able to find and keep a stable job.¹⁰

Unfortunately, cash assistance through welfare has become increasingly unavailable to these women as well. This population is most likely to be either time-limited from welfare or sanctioned for non-compliance with welfare rules. I am deeply concerned about this quarter of single-mother families – and their children! – that have not succeeded in making a stable transition from welfare to work and who are able to work only sporadically or part-time. This is a group for whom we need to rethink our

⁹ Rebecca M. Blank, “Improving the Safety Net for Single Mothers Who Face Serious Barrier to Work,” *Future of Children*, Vol 17(2), forthcoming Fall 2007.

¹⁰ Op. cit. See also Lesley J. Turner, Sheldon Danziger and Kristin Seefeldt, “Failing the Transition from Welfare to Work: Women Chronically Disconnected from Employment and Cash Welfare,” *Social Science Quarterly*, Vol 87(2): 227-249, June 2006.

policies, re-creating a safety net that can help provide economic stability to this group of women and children.

The Impact of Inequality

It is, of course, worth noting that Figures 3 and 4 indicate strong and continuous increases in wages among the college educated. The demand for more-educated workers has grown strongly over the past 25 years, while the demand for less-skilled workers has not. This rising inequality in wages is reflected in rises in household income inequality as well, although income inequality has not increased as much as wage inequality. This is because more adults in poor households are working today than in past decades, hence increases in hours of work are offsetting relative wage changes.¹¹

Rising inequality has been correlated with a variety of economic shifts in the U.S. economy. Shifts in demand have privileged more-skilled workers, relative to their less-skilled brothers and sisters. These demand shifts are due to changes in technology and in the global competition for workers.¹² More-educated U.S. workers – and we have the best group of highly-educated workers in the world – have gained enormously from the expanding and increasingly interconnected international economy and from the new technologies in information and communication. Less-educated workers have gained much less from these changes.

¹¹ Sheldon H. Danziger, “Fighting Poverty Revisited,” FOCUS, Institute for Research on Poverty, University of Wisconsin-Madison, forthcoming.

¹² An extended literature discusses these wage trends. A very good recent contribution summarizes this literature, David H. Autor, Lawrence F. Katz, and Melissa S. Kearney. “Rising Wage Inequality: The Role of Composition and Prices.” National Bureau of Economic Research Working Paper No. 11628, Cambridge, MA: NBER. September 2005.

Why should we care about rising inequality? There are at least three reasons. First, there is a *sense of economic deprivation* among lower income families, as they watch others move further ahead. Tuition for higher education is increasing faster than inflation; housing prices and rents in many areas of the country have increased much faster than overall prices. Health care is almost impossible to purchase on the open market, if not provided by one's employer. Lower-wage workers in today's economy find it hard to achieve those things that are part of the American dream...your own house, a job with pension and health benefits, or the opportunity to send your children to college.

Second, economic inequality is *deeply linked with other types of social inequality*. Health disparities between more and less-educated workers have widened over the past few decades. Differences in educational achievement are widening between the best and worst students. These social inequalities only reinforce economic inequality. More troublesome, they may limit opportunities for the children of today's lower wage workers. Economic mobility has always been an important promise in America. But widening inequality makes it harder for the children growing up in today's low-income families to dream about doing better. In fact, quite a bit of evidence now suggests that economic mobility is greater in many European countries than it is in the United States.¹³

Third, economic inequality and a sense of relative deprivation can have *negative effects on the civic and the political realm*. The economic experiences of the past two decades are very different for those with a college education than for those with only a high school education. This makes it hard to engage in a common conversation about economic problems and their solutions. Fear of technological change and of

¹³ Markus Jantti, et. al., "American Exceptionalism in a New Light: A Comparison of Intergenerational Mobility in Nordic Countries, the U.K. and the U.S.," IZA Discussion Paper No 1938, Bonn: IZA, 2006.

growing economic internationalization is fueling a backlash that can lead to bad policies that limit future economic growth. Public discussions of social security reform or health insurance reform are hard to hold when the bottom third of the population has only social security and Medicare to rely on in old age, while the top third has extensive market investments and long-term supplemental health coverage through their job. In short, economic inequality makes it harder to solve our common problems and harder to evoke a sense of common purpose and experience. This is not only inconvenient for politicians; it can threaten the civic nature of public debate in a democracy.

Inequality is an inherent and necessary part of any market economy, but the sharp rises in relative well-being between different groups in the current economy is very troublesome. High and rising levels of inequality are a social and economic problem that will limit economic and policy progress on many fronts.

Policy Implications

What do we need to be thinking about on the policy front to deal with these differences in employment and earnings opportunities? I strongly agree with Federal Reserve Chairman Ben Bernanke, who in a recent speech has called for investments in education and training to moderate inequality.¹⁴ In the long run, more Americans need more and better education; and as Chairman Bernanke has noted, it might be as important to expand pre-kindergarten education as to reform high schools. There is increasing evidence regarding the value of publicly available pre-K programs, for instance.

¹⁴ “The Level and Distribution of Economic Well-being”, speech by Ben S. Bernanke on February 6, 2007. See <http://www.federalreserve.gov/BoardDocs/Speeches/2007/20070206/default.htm>

But, by itself, a strategy focusing on educational improvements is not enough to assure adequate work and income among less-skilled Americans and their families. At least three other broad policy components are necessary:

(1) We need a *strong labor market with growing demand for workers at all skill levels*. Interestingly, some recent research suggests that middle-income workers may be recently experiencing as many or more limitations in job growth as lower-wage workers.¹⁵ Those of us from Michigan are especially aware of the need to keep our economic growth strong and our industries competitive. This means macroeconomic policies that provide stable economic growth and low unemployment for all workers.

(2) We need to *maintain and expand our policies that subsidize work for the least skilled and that encourage adults to take and keep jobs*. It is an unfortunate fact that employment may not lead to economic self-sufficiency among today's low-wage workers. As their wages have grown more slowly, rising energy prices and rising housing prices have left less-skilled workers struggling to pay the bills. For the least-skilled workers, full-time work at or near the minimum wage results in an earnings level that is well below poverty if they are trying to raise children and support a family.

While I know that this Committee tends to focus on more macroeconomic policies, a healthy macroeconomy requires attention to specific policies that subsidize and encourage less-skilled workers to stay in the labor market. We are far better off keeping less-skilled workers stably employed in mainstream jobs than risking the social problems that result from lack of jobs or inadequate incomes, including crime, underground economic activity, lack of residential stability, and a cycle of poverty and

¹⁵ David H. Autor, Lawrence F. Katz, and Melissa S. Kearney, "The Polarization of the U.S. Labor Market, *American Economic Review*, Vol 96(2): 189-194, May 2006.

low skills that gets passed from one generation to the next. This means maintaining the EITC and even extending its generosity among less-skilled workers who do not have younger children to support. It means a moderate minimum wage, set at levels similar to where it has historically been set. It means assuring that low income families have health care available to them, so that illness doesn't mean economic disaster from either loss of employment or unpayable medical bills. It means that Unemployment Insurance should be available to workers who lose their jobs, even if those jobs were part-time or low-wage.

(3) It is important *to think creatively about ways to make sure that all Americans benefit from the economic growth caused by recent economic shifts*. The economic changes of the past 25 years have not been good for less-skilled workers. Perhaps these problems were neither preventable nor foreseeable. As an economist, I believe in the value of global markets and world trade for U.S. economic growth, just as I believe in the value of inventing and applying new technologies to increase productivity. These changes have provided enormous advantages to college-educated American workers. But they have disadvantaged less-skilled workers.

There are two ways to distribute the benefits of these changes more broadly. First, we can redistribute some of the gains through the tax and transfer system. This is exactly what an expanded EITC or better health care coverage provides. Second, we can assist those workers who are displaced by new technologies or by shifts in where goods and services are produced. A policy such as wage insurance, aimed at cushioning income losses for displaced workers, can help America's workers adjust to a changing economy.

Work is a good thing in the lives of adults. It produces income, but it also provides a sense of self-value by demonstrating that an individual has skills to contribute that the economy values. We should do all we can to encourage men and women to acquire the skills and work behaviors that allow them to support themselves and their children. But we should also do all we can to guarantee that there are jobs available to those who want to work, and to ensure those who demonstrate their ability and willingness to work are able to support themselves and their families.

Thank you.